NOREX EXPLORATION SERVICES INC.

2002 ANNUAL REPORT TO SHAREHOLDERS

and

FIRST QUARTER 2003 REPORT TO SHAREHOLDERS

Norex Exploration Services Inc.

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President's Message to the Shareholders

It is with a sense of accomplishment that I present Norex's first Annual Report for the period ending April 30, 2002, and First Quarter Report for the period ending July 31, 2002.

Over the past six months, the company achieved seven important objectives, namely the:

- Completion of a public listing on the TSX Venture Exchange;
- Melding of three separate and diverse companies into one entity;
- Reorganization of corporate banking facilities;
- Significant reduction of annual equipment rental costs;
- Merger of seismic acquisition and seismic processing services into one operating subsidiary;
- Dramatic increase of seismic data acquisition capacity;
- Achievement of critical mass on a go-forward basis.

Norex Exploration Services Inc. commenced trading on the TSX Venture Exchange February 1, 2002. During this same month, the Canadian Western Bank approved a revolving operating line of up to $1.0-million and a term loan facility of $425,000. This, in combination with restructured supplier financing terms, enabled the company to purchase equipment for both acquisition and processing services, thereby reducing rental costs by a projected $2.2-million over the next two years.

The respective seismic acquisition and seismic processing services of Norex Exploration Inc. and Eclipse Seismic Processors Inc. were merged into a new operating subsidiary, Norex Geophysical Inc., effective May 1, 2002. With the merger, Norex's clients are able to take advantage of two complementary services that are not typically offered by one company. Cross marketing of services now occurs to the industry for the use of both data acquisition and data processing services. Furthermore, Norex is pursuing opportunities to establish its own seismic data library. Capital and cost structures continue to be streamlined, allowing Norex to continue its growth mandate in a prudent fashion. Due to the complex nature of the various corporate structures and transactions, additional professional fees were incurred in the six months ended April 30,2002.

Lastly, Norex dramatically increased its seismic data acquisition capacity by adding a further 1,000 channels in May. With a total capability of 2,256 channels, Norex meets the requirement to bid on most, if not all, seismic data acquisition contracts in Western Canada.

Decreased spending by oil and gas companies through the first half of calendar 2002 has resulted in a decrease in profitability for the seismic acquisition and processing revenue streams. While we believe that Norex has received more than its proportionate share of the seismic activity, deteriorating industry conditions were partially offset by deferring non-essential capital expenditures. The milestones that have been achieved since our inception as a public company have placed Norex in a very strong position as industry activity levels improve.

Management's foresight proved correct in recognizing the need early in calendar 2002 to limit expenditures for the balance of the year. However, we continue to invest in necessary computer hardware system upgrades and the development of proprietary processing software, investments that benefit our customers.

Management continues to evaluate acquisition opportunities that enhance growth prospects. These opportunities will only be pursued when equity markets recover, so as not to excessively dilute the interests of our existing shareholders.

Industry analysts and experts continue to foresee a recovery of oil and gas exploration spending by the fourth quarter of 2002, gradually increasing in 2003. Although first quarter results ended July 31 were below our expectations, we are cautiously optimistic for the remainder of the fiscal year. Management continues to rationalize infrastructure costs while optimizing corporate profitability in a difficult operating environment. Norex has earned an excellent reputation for acquisition and processing services, and is well positioned to capitalize on renewed industry activity when it occurs. Prudent capital stewardship is being

exercised through the balance of fiscal 2003, with targeted expenditures focused on maximizing revenues and cash flows.

We are fully committed to devoting the resources necessary to ensure that Norex achieves meaningful revenue and earnings growth, thereby enhancing shareholder value. I look forward to meeting with you at the annual meeting and discussing our plans for the coming year.

Respectfully submitted on behalf of the Board of Directors,

(signed) Ben Berg
President & Chief Executive Officer

Management Discussion and Analysis
For the period ended April 30, 2002

Norex Exploration Services Inc. (the "Company"), formerly Reliance Energy Inc. ("Reliance"), is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic services including seismic acquisition and seismic processing.

Effective February 1, 2002, Reliance, a public company, engaged in the exploration and development of oil and gas, acquired all of issued and outstanding shares of Norex Exploration Inc. ("Norex") in exchange for 3 million post-10 to 1-consolidation common shares. In addition, Reliance acquired all the issued and outstanding shares of Eclipse Seismic Processors Inc. ("Eclipse"), a private company engaged in providing geophysical services, in exchange for 1.7 million post-consolidation common shares.

This acquisition resulted in the former shareholders of Norex owning greater than 50% of the common shares of the combined entity. As a result, the acquisition was accounted for as a reverse takeover using the purchase method with Norex deemed the acquirer. In accordance with reverse takeover accounting, these consolidated financial statements are a continuation of Norex, however, the capital structure of issued and outstanding shares is that of Reliance.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Norex and Eclipse. The results of operations of Reliance and Eclipse are included in the accounts from the effective date of the acquisition. The October 31, 2001 comparative figures are those of Norex.

Results of Operations

The Company's seismic acquisition services resulted in sales of $3,396,932 for the six months ended April 30, 2002 as compared to seismic acquisition sales for the 12 months ended October 31, 2001 of $7,855,358. Decreased customer activity was experienced in the early months of 2002. Direct expenses related to the seismic acquisition totaled $2,794,283 for the six months ended April 30, 2002 versus $6,661,019 for the year ended October 31, 2001. The largest reduction in current and future field costs is in the area of equipment rentals. The Company negotiated with a manufacturer to purchase rental equipment with 80% of its prior rental payments being applied to the capital lease.

Seismic processing revenue of $296,159 is from the Eclipse subsidiary and reflects the revenue from the date of acquisition of February 1 to April 30, 2002. The comparative numbers are for Norex and therefore will not include any of the processing revenue or expenses. Direct processing costs of $208,530 were incurred to earn these revenues.

Administrative and shop expenses of $506,995 include the overhead expenditures of Norex for the six months ended April 30, 2002 and Eclipse for the 3 month period from the date of acquisition to April 30, 2002, while the $766,366 for the year ended October 31, 2001 are only Norex's costs.

The loss for the period of $28,869 compares to the loss of $46,628 for the prior year ended October 31, 2001. Cash flow from operations was $165,856 versus $365,637 for the prior year.

Capital Expenditures

The Corporation purchased $517,782 of capital assets during the six months ended April 30, 2002, of which $107,455 were acquired through the business combination, $43,546 through capital lease and $366,781 through cash purchases.

Liquidity and Capital Resources

The Company had a working capital deficit of $45,768 at April 30, 2002. It is anticipated that this deficit will grow in the early part of the fiscal year, however with continued prudent capital expenditures, positive cash flow and an expected increase in industry activity, the debt levels will remain well within established guidelines and bank covenants.

Management's Responsibility for Financial Statements

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles, and the financial information appearing throughout the annual report is presented on a basis consistent with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the financial statements. Their report is presented below. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

(signed) Ben Berg
President and Chief Executive Officer

(signed) Michael Broome
Secretary

Calgary, Canada
September 13, 2002

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Norex Exploration Services Inc. as at April 30, 2002 and October 31, 2001 and the consolidated statements of operations and retained earnings and cash flows for the six-month period ended April 30, 2002 and the year ended October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2002 and October 31, 2001 and the results of its operations and its cash flows for the six-month period ended April 30, 2002 and the year ended October 31, 2001 in accordance with Canadian generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants

Calgary, Canada
September 13, 2002

NOREX EXPLORATION SERVICES INC.

Consolidated Balance Sheets

		April 30, 2002		October 31, 2001
Assets				
Current assets:				
Cash	$	–	$	264,818
Accounts receivable		1,943,932		977,863
Work in progress		–		70,406
Prepaids and deposits		15,139		13,048
Income taxes receivable		8,418		11,360
		1,967,489		1,337,495
Goodwill (note 3)		150,000		–
Capital assets (note 4)		1,377,435		1,054,378
	$	3,494,924	$	2,391,873
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	$	88,926	$	–
Accounts payable and accrued liabilities		1,716,107		969,486
Long-term debt due within one year (note 6)		208,224		291,173
		2,013,257		1,260,659
Long-term debt (note 6)		182,529		181,990
Due to shareholders (note 5)		275,201		275,201
Provision for future site restoration		21,322		–
		2,492,309		1,717,850
Shareholders' equity:				
Share capital (note 7)		357,611		150
Retained earnings		645,004		673,873
		1,002,615		674,023
Basis of presentation (note 1)				
Subsequent event (note 6)				
Commitments (note 10)				
	$	3,494,924	$	2,391,873

See accompanying notes to consolidated financial statements.

Approved by the Board:

(signed) Dallas L. Droppo Director

(signed) Michael Broome Director

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Operations and Retained Earnings

	Six-month period ended April 30, 2002	Year ended October 31, 2001
Revenue:		
Seismic acquisition	$ 3,396,932	$ 7,855,358
Seismic processing	296,159	–
	3,693,091	7,855,358
Direct seismic acquisition expenses:		
Contractors	961,427	1,892,461
Wages, benefits and subsistence	753,059	1,607,461
Field supplies and consumables	559,643	1,019,783
Equipment rentals	321,193	1,715,527
Vehicle operating	198,961	425,787
	2,794,283	6,661,019
Direct seismic processing expenses:		
Wages and benefits	163,082	–
Supplies	31,855	–
Contractors	13,593	–
	208,530	–
Income before other items and income taxes:	690,278	1,194,339
Other:		
Administrative and shop expenses (note 5)	506,995	766,366
Amortization	194,725	408,416
Interest on long-term debt	19,926	66,140
Other income	(2,499)	(3,804)
Loss on sale of capital assets	–	6,449
Loss before income taxes	(28,869)	(49,228)
Income taxes:		
Future income tax recovery	–	(2,600)
Net loss for the period	(28,869)	(46,628)
Retained earnings, beginning of period	673,873	720,501
Retained earnings, end of period	$ 645,004	$ 673,873
Loss per share – basic and diluted	$ (0.01)	$ (0.01)

See accompanying notes to consolidated financial statements.

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Cash Flows

	Six-month period ended April 30, 2002	Year ended October 31, 2001
Cash provided by (used in):		
Operations:		
Net loss for the period	$ (28,869)	$ (46,628)
Items not involving cash:		
Amortization	194,725	408,416
Loss on sale of capital assets	–	6,449
Future income taxes	–	(2,600)
Funds flow from operations	165,856	365,637
Change in non-cash working capital	(53,263)	510,448
	112,593	876,085
Investing:		
Acquisition of capital assets	(366,781)	(102,456)
Proceeds from disposal of capital assets	–	47,871
Cash acquired on acquisition (note 3)	123,895	–
	(242,886)	(54,585)
Financing:		
Long-term debt, net	(150,562)	(415,325)
Repayment of lease obligations	(22,889)	(45,051)
Bank debt, net	(50,000)	(115,000)
Due to shareholders	–	(35,894)
	(223,451)	(611,270)
Increase (decrease) in cash	(353,744)	210,230
Cash, beginning of period	264,818	54,588
Cash (bank indebtedness), end of period	$ (88,926)	$ 264,818
Funds flow from operations per share – basic and diluted	$ 0.03	$ 0.08

During 2002, the Company paid interest of $19,926 (October 31, 2001 - $66,140) and paid income taxes of $nil (October 31, 2001 - $11,360).

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

Norex Exploration Services Inc. (the "Company"), formerly Reliance Energy Inc. ("Reliance") (see note 3), is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic services including seismic acquisition and seismic processing.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Norex Exploration Inc. ("Norex") and Eclipse Seismic Processors Inc. ("Eclipse").

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and accompanying notes. Actual results could differ from these estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Capital assets:

Capital assets are recorded at cost. Amortization is provided at various rates designed to amortize the assets over their economic useful lives. Rates are as follows:

Asset	Basis	Rate
Office equipment	declining balance	20%
Communications equipment	declining balance	20%
Vehicles	declining balance	30%
Exploration equipment	declining balance	30%
Cables and geophones	declining balance	30%
Computer software	declining balance	100%
Seismic data	declining balance	20%
Tapes	declining balance	30%

(b) Site restoration and abandonment costs:

The estimated cost of site restoration and abandonment is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The provision is recorded on the statement of operations. Future site restoration and abandonment expenditures are charged to the accumulated provision as incurred.

2. Significant accounting policies (continued):

(c) Leases:

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a declining balance basis over the life of the assets.

(d) Work in progress:

Work in progress is valued at the lower of cost and net realizable value.

(e) Per share amounts:

The Company has retroactively adopted new standards for the computation, presentation and disclosure of per share amounts. Under the new standards, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only dilutive instruments, where the market price exceeds the issue price, impact the diluted calculations. In computing diluted loss and funds flow from operations per share, no shares were added to the weighted average number of common shares outstanding during the six-month period ended April 30, 2002 (year ended October 31, 2001 - nil) for the dilutive effect of employee stock options. No adjustments were required to the reported loss in computing diluted per share amounts. There was no impact on the diluted loss or funds flow from operations per share for 2002 or 2001 as a result of this change in accounting policy. A total of 475,000 (2001 – nil) options were excluded from the diluted calculations, as they were anti-dilutive.

Per common share amounts were calculated using a weighted average number of shares outstanding at April 30, 2002 of 5,389,338 (October 31, 2001 – 4,700,000).

(f) Income taxes:

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(g) Stock option plan:

The Company has a stock option plan described in note 7. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration received on exercise of the option is credited to share capital.

2. Significant accounting policies (continued):

(h) Goodwill:

Goodwill represents the excess of the cost of the acquisition (see note 3) over the net of the amounts assigned to assets acquired and liabilities assumed. Under a new standard for accounting for goodwill, goodwill is no longer amortized but is tested for impairment at least annually.

The Company monitors its goodwill balance to determine whether any impairment has occurred. In order to make that determination, the Company bases the recoverability using the current and estimated cash flows of the underlying business that gave rise to the goodwill, on an undiscounted basis. If this review indicates that goodwill will not be recovered, the Company recognizes a write-down of the unamortized portion of goodwill in excess of its recoverable amount.

(i) Revenue recognition:

Revenue from the sale of goods is recognized in the statement of earnings when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

3. Business combinations:

Effective February 1, 2002, Reliance, a public company, engaged in the exploration and development of oil and gas, acquired all of the issued and outstanding shares of Norex in exchange for 3 million post-10 to 1-consolidation common shares. In addition, Reliance acquired all the issued and outstanding shares of Eclipse, a private company engaged in providing geophysical services, in exchange for 1.7 million post-consolidation common shares.

This acquisition resulted in the former shareholders of Norex owning greater than 50% of the common shares of the combined entity. As a result, the acquisition was accounted for as a reverse-takeover using the purchase method with Norex identified as the acquirer. In accordance with reverse takeover accounting, these consolidated financial statements are a continuation of Norex, however, the capital structure of issued and outstanding shares is that of Reliance. The results of operations of Reliance and Eclipse are included in the accounts from the effective date of the acquisition. The comparative figures are those of Norex.

3. Business combinations (continued):

The purchase equation is as follows:

Consideration given:

4,700,000 common shares (see note 7)	$ 357,461

Allocated based on fair values as follows:

	Reliance	Eclipse	Total
Cash	$ 3,451	$ 120,444	$ 123,895
Non-cash working capital (deficiency)	(75,389)	128,423	53,034
Goodwill	150,000	–	150,000
Capital assets	104,014	3,441	107,455
Long-term debt	–	(54,923)	(54,923)
Provision for site restoration	(22,000)	–	(22,000)
	$ 160,076	$ 197,385	$ 357,461

4. Capital assets:

April 30, 2002	Cost	Accumulated amortization	Net book value
Office equipment	$ 29,559	$ 19,702	$ 9,857
Communications equipment	36,592	20,610	15,982
Vehicles	520,977	356,888	164,089
Exploration equipment	2,488,496	1,444,706	1,043,790
Cables and geophones	348,066	306,886	41,180
Computer software	500	125	375
Tapes	3,472	824	2,648
Seismic data	104,014	4,500	99,514
	$ 3,531,676	$ 2,154,241	$ 1,377,435
October 31, 2001			
Office equipment	$ 28,138	$ 16,617	$ 11,521
Communications equipment	35,717	18,882	16,835
Vehicles	471,932	332,259	139,673
Exploration equipment	2,130,041	1,292,139	837,902
Cables and geophones	348,066	299,619	48,447
	$ 3,013,894	$ 1,959,516	$ 1,054,378

4. **Capital assets (continued):**

Included in capital assets at April 30, 2002 are $154,180 of assets under capital lease (October 31, 2001 - $289,187).

5. **Related party transactions:**

(a) During the six months ended April 30, 2002, the Company was charged $66,755 (year ended October 31, 2001 - $31,200) by officers and directors for administrative and consulting services. These amounts are recorded at the exchange amount agreed to by the related parties.

(b) Advances from shareholders in the amount of $275,201 (2001 - $275,201) are non-interest bearing, unsecured with no fixed terms of repayment. The shareholders have advised the Company that they will not demand repayment prior to May 1, 2003.

6. **Long-term debt:**

The Company has the following long-term debt obligations:

	April 30, 2002	October 31, 2001
Bank term loan:		
Term loan at bank prime rate plus 1.875% payable in 36 monthly installments of $12,800 including interest, commencing February 2001	$ 248,387	$ 316,573
Bank line of credit:		
Demand facility at bank prime rate plus 1.5%	–	50,000
Conditional sales contracts:		
Contracts for seismic recording equipment, bearing interest at 12% per annum requiring blended monthly payments of $10,592	–	82,376
Capital leases:		
Six capital leases (2001 - four leases) with interest rates ranging from 8.2% to 10.1% per annum having blended monthly payments of $6,787	142,366	24,214
	390,753	473,163
Less principal payments due within one year	208,224	291,173
	$ 182,529	$ 181,990

6. Long-term debt (continued):

Future principal payments as at April 30, 2002 are as follows:

2003	$ 208,224
2004	158,318
2005	23,795
2006	416

Subsequent to April 30, 2002, the Company secured an available revolving line of credit from a bank of $1 million bearing interest at the bank prime rate plus 1/8% and a non-revolving demand loan facility of $425,000 bearing interest at the bank prime rate plus 1.375%. These are secured by a general security agreement on all present and after-acquired assets with permitted encumbrances to specific leases, a first charge on specific assets with a net book value of $652,420, and a postponement of shareholder loans.

7. Share capital:

(a) Authorized:

Unlimited number of common shares

(b) Common shares issued:

	Number of Shares	Amount
Balance, October 31, 2000 and 2001	150	$ 150
Shares issued to Norex shareholders (note 3)	3,000,000	150
Shares issued to Reliance shareholders (note 3)	1,378,675	160,076
Shares issued to Eclipse shareholders (note 3)	1,700,000	197,385
Balance, April 30, 2002	6,078,675	$ 357,611

(c) Stock options:

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. The options granted under the plan vest immediately and expire at the earlier of five years from date of grant or the date from which the optionee ceases to be a director or employee.

7. Share capital (continued):

	April 30, 2002	
	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	–	$ –
Granted	475,000	1.00
Stock options outstanding, April 30, 2002	475,000	$ 1.00
Stock options exercisable, April 30, 2002	475,000	$ 1.00

The weighted average remaining contractual life of the options outstanding at April 30, 2002 is 4.8 years.

A proposal for an amendment to reduce the option price to $0.35 will be voted on at the upcoming shareholder's annual and special meeting.

8. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 36.7% to income before income taxes. The difference relates to the following items:

	April 30, 2002	October 31, 2001
Statutory tax rate	36.7%	19.1%
Expected recovery	$ (10,592)	$ (9,403)
Non-deductible expenses	2,424	1,592
Loss on disposal of assets	–	1,232
Effect of change in tax rate	(6,474)	–
Other	(176)	(3,053)
Valuation allowance	14,818	7,032
Future income tax recovery	$ –	$ (2,600)

8. Income taxes (continued):

The components of the net future income tax asset at April 30, 2002 is as follows:

Future income tax assets:	
Capital assets	$ 208,791
Share issue costs	11,099
Future site restoration	7,823
Valuation allowance	(227,713)
Net future income tax asset	$ –

9. Financial instruments:

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash, accounts receivable, bank indebtedness and debt, accounts payable and accrued liabilities, long-term debt and shareholders' loans. As at April 30, 2002 and October 31, 2001, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

(b) Credit Risk

The majority of the Company's accounts receivable are in respect of seismic acquisition and processing operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

10. Commitments:

Under the terms of lease agreements for its premises and vehicle operating leases, the Company is committed to the following payments:

2003	$ 98,867
2004	35,780
2005	29,820

Management Discussion and Analysis
For the period ended July 31, 2002

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Effective February 1, 2002, Reliance, a public company, engaged in the exploration and development of oil and gas, acquired all of issued and outstanding shares of Norex Exploration Inc. ("Norex") in exchange for 3 million post-10 to 1-consolidation common shares. In addition, Reliance acquired all the issued and outstanding shares of Eclipse Seismic Processors Inc. ("Eclipse"), a private company engaged in providing geophysical services, in exchange for 1.7 million post-consolidation common shares.

This acquisition resulted in the former shareholders of Norex owning greater than 50% of the common shares of the combined entity. As a result, the acquisition was accounted for as a reverse takeover using the purchase method with Norex deemed the acquirer. In accordance with reverse takeover accounting, these consolidated financial statements are a continuation of Norex, however, the capital structure of issued and outstanding shares is that of Reliance.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Norex and Eclipse who amalgamated on May 1, 2002 into a new company called Norex Geophysical Inc. The comparative figures for the three months ended July 31, 2001 are those of Norex Exploration Inc.

Results of Operations

The Company's seismic acquisition services resulted in sales of $1,004,541 for the three months ended July 31, 2002 as compared to seismic acquisition sales for the three months ended July 31, 2001 of $851,248. Processing revenue for the three months ended July 31, 2002 was $266,831. There were no processing activities in the prior period as they are a result of the acquisition described above.

Direct costs of $731,203 for seismic acquisition activities for the period compare to $972,135 in the prior period. Current and future field costs for seismic acquisition equipment rentals were reduced through negotiation with a manufacturer to purchase rental equipment with 80% of its prior rental payments being applied to the capital lease. Direct seismic processing costs for the three month period were $245,689.

Administrative and shop expenses of $245,128 include consolidated overhead expenditures for the three months ended July 31, 2002, while the $179,329 for the three month period ended July 31, 2001 are only Norex's costs.

The loss for the three months ended July 31, 2002 of $90,681 compares to the loss of $417,213 for the three months ended July 31, 2001. Cash flow from operations was a $39,843 inflow for the current period versus a $312,920 outflow for the prior period.

Capital Expenditures

The Corporation purchased $1,086,849 of capital assets, net of $24,776 in disposals, during the three months ended July 31, 2002, of which $32,207 were cash purchases. The balance of assets were acquired through capital leases.

Liquidity and Capital Resources

The Company had a working capital deficit of $347,436 at July 31, 2002. It is anticipated that this deficit will decrease in future periods with continued prudent capital expenditures, positive cash flow and an expected increase in industry activity.

NOREX EXPLORATION SERVICES INC.

Consolidated Balance Sheets

		July 31 2002 (unaudited)		April 30 2002
Assets				
Current				
Accounts receivable	$	**1,151,344**	$	1,943,932
Prepaids and deposits		**61,073**		15,139
Income taxes recoverable		**8,418**		8,418
		1,220,835		1,967,489
Goodwill		**150,000**		150,000
Capital assets		**2,313,956**		1,377,435
	$	**3,684,791**	$	3,494,924
Liabilities				
Current				
Bank indebtedness	$	**209,426**	$	88,926
Operating line of credit *(note 4)*		**275,000**		-
Accounts payable and accrued liabilities		**643,578**		1,716,107
Long-term debt due within one year *(note 5)*		**440,267**		208,224
		1,568,271		2,013,257
Long-term debt *(note 5)*		**958,063**		182,529
Due to shareholders		**225,201**		275,201
Provision for future site restoration		**21,322**		21,322
		2,772,857		2,492,309
Shareholders' Equity				
Share capital		**357,611**		357,611
Retained earnings		**554,323**		645,004
		911,934		1,002,615
	$	**3,684,791**	$	3,494,924

Approved by the Board:

(signed) Dallas L. Droppo Director

(signed) Michael Broome Director

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Operations and Retained Earnings
Three months ended July 31
(unaudited)

		2002		2001
Revenue				
Seismic acquisition	$	**1,004,541**	$	851,248
Seismic processing		**266,831**		-
		1,271,372		851,248
Direct seismic acquisition costs				
Contractors		**302,238**		209,940
Wages, benefits and subsistence		**181,734**		180,969
Equipment rentals		**132,889**		397,958
Field supplies and consumables		**90,683**		133,751
Vehicle operating		**23,659**		49,517
		731,203		972,135
Direct seismic processing costs				
Wages and benefits		**165,267**		-
Supplies		**77,249**		-
Contractors		**3,173**		-
		245,689		-
Income before other items and income taxes		**294,480**		(120,887)
Other items				
Administrative and shop expenses		**245,128**		179,329
Amortization		**150,328**		95,630
Interest on long-term debt		**11,624**		13,625
(Gain) loss on sale of capital assets		**(19,804)**		8,663
Other income		**(2,115)**		(921)
Net loss for the period		**(90,681)**		(417,213)
Retained earnings, beginning of period		**645,004**		1,564,014
Retained earnings, end of period	$	**554,323**	$	1,146,801
Loss per share – basic and diluted *(note 6)*	$	**(0.01)**	$	(0.09)

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Cash Flows
Three months ended July 31
(unaudited)

	2002	2001
Cash provided by (used in):		
Operations		
Net loss for the period	$ (90,681)	$ (417,213)
Items not involving cash		
Amortization	150,328	95,630
(Gain) loss on sale of capital assets	(19,804)	8,663
Funds flow from (used in) operations	39,843	(312,920)
Change in non-cash working capital	(325,875)	206,780
	(286,032)	(106,140)
Investing		
Acquisition of capital assets	(32,207)	-
Proceeds from sale of capital assets	44,580	15,641
	12,373	15,641
Financing		
Proceeds from operating line of credit	275,000	-
Proceeds from long-term debt	213,971	-
Repayment of long-term debt	(285,812)	(132,960)
Repayment of shareholder loan	(50,000)	(9,097)
	153,159	(142,057)
Decrease in cash	(120,500)	(232,556)
(Bank indebtedness) cash, beginning of period	(88,926)	398,184
(Bank indebtedness) cash, end of period	$ (209,426)	$ 165,628
Funds flow from (used in) operations per share – basic and diluted *(note 6)*	$ 0.01	$ (0.07)
Supplemental cash flow information:		
Interest paid	$ 11,624	$ 13,625

1. Nature of operations

Norex Exploration Services Inc. (the "Company"), formerly Reliance Energy Inc. ("Reliance"), is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic services including seismic acquisition and seismic processing.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiary, Norex Geophysical Inc.

2. Basis of presentation

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal period ended April 30, 2002. The disclosures provided below are incremental to those included in the annual audited consolidated financial statements and accordingly, the interim consolidated financial statements should be read in conjunction with the notes contained in the Company's April 30, 2002 audited consolidated financial statements.

In February 2002, Reliance, a public company, engaged in the exploration and development of oil and gas, acquired all of the issued and outstanding shares of Norex Exploration Inc. ("Norex") in exchange for 3 million post-10 to 1-consolidation common shares. In addition, Reliance acquired all the issued and outstanding shares of Eclipse Seismic Processors In. ("Eclipse"), a private company engaged in providing geophysical services, in exchange for 1.7 million post-consolidation common shares. On May 1, 2002, Norex and Eclipse amalgamated to form Norex Geophysical Inc.

This acquisition resulted in the former shareholders of Norex owning greater than 50% of the common shares of the combined entity. As a result, the acquisition was accounted for as a reverse-takeover using the purchase method with Norex identified as the acquirer. In accordance with reverse takeover accounting, these consolidated financial statements are a continuation of Norex, however, the capital structure of issued and outstanding shares is that of Reliance. The results of operations of Reliance and Eclipse are included in the accounts from the effective date of the acquisition. The comparative figures are those of Norex.

3. Change in accounting policy

Effective May 1, 2002 the Company adopted CICA 3870 *Stock-based Compensation and Other Stock-based payments*. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after May 1, 2002. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under its stock option plan.

Direct awards of stock to employees and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of granting using a Black-Scholes Option Pricing Model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

3. Change in accounting policy (continued)

This new standard requires the presentation of pro-forma net loss as if the Company had accounted for its employee stock options granted after April 30, 2002 under the fair value method. As the Company did not issue any options during the three months ended July 31, 2002 no pro forma adjustment is required for the period.

4. Operating line of credit

In July 2002, the Company secured an available revolving line of credit from a bank of $1 million bearing interest at the bank prime rate plus 0.875%. These are secured by a general security agreement on all present and after-acquired assets with permitted encumbrances to specific leases, a first charge on specific assets with a net book value of $603,350 and a postponement of shareholders loans. As at July 31, 2002, $515,574 was available under this facility.

5. Long-term debt

The Company has the following long-term debt obligations:

	July 31 2002	April 30 2002
Demand loan at bank prime rate plus 1.375% payable in monthly installments of $7,680 plus interest, commencing July 2002 and secured by a general security agreement and a first fixed charge over certain assets with a net book value of $603,350	$ 213,971	$ -
Capital lease with no interest having monthly payments ranging from $10,000 to $28,917, from May 2002 to September 2006 and secured by leased assets with a net asset value of $1,039,500	1,060,001	-
Five capital leases (April 30 – six leases) with interest rates ranging from 8.7% to 10.1% per annum having blended monthly payments of $6,475 (April 30 - $6,787) and secured by leased assets with a net asset value of $ 140,540 (April 30 - $154,180)	124,358	142,366
Term loan at bank prime rate plus 1.875% payable in 36 monthly installments of $12,800 including interest, commencing February 2001, repaid July 2002	-	248,387
	1,398,330	390,753
Less principal payments due within one year	440,267	208,224
	$ 958,063	$ 182,529

5. Long-term debt (continued)

Future principal payments as at July 31, 2002 are as follows:

2003	$ 440,267
2004	263,183
2005	291,587
2006	337,167
2007	66,126

6. Share capital

(a) Authorized:

Unlimited number of common shares

(b) Common shares issued:

	Number of shares	Amount
Balance, July 31 and April 30, 2002	6,078,675	$ 357,611

(c) The following summarizes information about stock options outstanding as at July 31, 2002:

Exercise Price $	Number Outstanding July 31, 2002	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price $	Number Exercisable At July 31, 2002	Weighted Average Exercise Price $
1.00	475,000	4.6	1.00	475,000	1.00

7. Per share amounts

The Company has authorized share capital consisting of an unlimited number of common shares. Per share amounts are based on the following weighted average number of shares outstanding during the period:

	July 31 2002	July 31 2001
Basic and diluted	**6,078,675**	4,700,000

Corporate Directory

Board of Directors

Bernard (Ben) Berg
President & Chief Executive Officer

Frank Varga
Vice President, Seismic Acquisition

Michael Broome
President
Pacific Copy

Dallas Droppo
Partner
Blake, Cassels Graydon LLP

Douglas MacIntosh
Independent Businessman

Corporate Office

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Calgary, Alberta

Banker

Canadian Western Bank
Calgary, Alberta

Legal Counsel

Blake, Cassels Graydon LLP
Calgary, Alberta

Morris S. McManus, Q.C.
Barrister and Solicitor
Calgary, Alberta